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C O N F I D E N T I A L SECTION 01 OF 04 TAIPEI 000908

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SUBJECT: TAIWAN VICE PREMIER GETS TOUGH ON TRADE AGENDA

REF: A. TAIPEI 674

1B. TAIPEI 124
1C. 06 TAIPEI 3288
1D. 06 TAIPEI 1831

Classified By: AIT DIRECTOR STEPHEN M. YOUNG FOR REASONS 1.5 (b), (c)

11. (C) Summary: In a somewhat surprising turn, Vice Premier Tsai Ing-wen complained to AIT Director April 24 that Taiwan

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believes there has been a serious loss of balance in the U.S.-Taiwan bilateral trade relationship. Delivering a written demarche, Tsai argued that the TIFA agenda needs to be re-energized and new, short-term targets set for completing negotiations on pending agreements. Director Young responded the U.S. fully agrees with the need for an energetic trade relationship, noting that we have made quite a lot of progress over the past ten months. He urged Tsai not to be too rigid in seeking dates in June (vice July) for the next TIFA Council meeting and reminded her that Taiwan also needs to work on some trade agenda items. End Summary.

12. (C) COMMENT: Tsai apparently called the meeting on short notice to react quickly and strongly to the Bhatia-TECRO/W Rep Joseph Wu meeting in Washington on April 20. Tsai has earlier complained about the TIFA dates slipping and is now delivering a sharper message urging more attention for the bilateral trade agenda. But this unusual bill of complaints could also have been ordered by President Chen himself, a possibility we'll continue to quietly explore. At lunch the same day, Taiwan Chief Trade Negotiator John Deng echoed this theme while explicitly connecting Taiwan's sense of reduced stature in the U.S. trade agenda with China's already large and growing position. A couple of times during these exchanges, Tsai darkly hinted at "political" factors influencing U.S. decisions on this process, a possible complaint over the perception that the SED has been behind procedural delays in scheduling TIFA and negotiating specific agreements. Moreover, there has been considerable domestic reaction to the recent announcement of the U.S.-Korea FTA

with respect to its potential impact on Taiwan's high-tech exports to the United States market.

¶13. (C) The good news is she has shorn her message of FTA trappings and seems intently focused on completing specific trade agreements in the near term. This is a goal espoused by Steve Chen at his lunch with AUSTR Stratford in December, and one that closely echoes the presentation by Deputy USTR Bhatia during his bilateral meeting with Tsai in May 2006. If there is any room to consider shifting to June for the TIFA Council meeting, we believe it should be considered. If we must stick with the proposed dates in early July, it would be very helpful for us to be able to say that Washington Agencies had given it another serious look, but that it would not be possible for the relevant reasons. As the Director stressed to VP Tsai in urging flexibility on her part, the last thing either side wants to see is yet another delay.
End Comment.

¶14. (U) AIT Director Young met with Vice Premier Tsai Ing-wen at her request on April 24 to discuss enhancing the U.S.-Taiwan bilateral trade relationship. Tsai was accompanied by Minister of Economic Affairs Steve Chen (Ruey-long), Vice Political Minister of Economic Affairs Hsieh Fa-dah and newly appointed Chief Trade Negotiator John Deng. Director Young was accompanied by AIT Econ Chief Daniel Moore.

Imperative to Energize Bilateral Trade

¶15. (C) Tsai said she and Taiwan's economic team are disappointed in the slow pace of progress on the bilateral Taiwan-U.S. trade front. Following the TIFA meetings in May 2006 with Deputy USTR Karan Bhatia, Taiwan had expected much more rapid progress. She said Taiwan had demonstrated its

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commitments to quick action and solving existing trade irritants with its actions to delay implementation of the pharmaceutical Price Volume Survey (PVS) and to allow importation of U.S. beef. She had expected that negotiations would be largely complete by now on the proposed bilateral tax avoidance and investment agreements, but that to date the U.S. side had yet to present any thoughts on the tax agreement and talks had only just begun on the investment agreement. Likewise, she said it was time to begin discussions on a bilateral procurement agreement. She said she would like to target May 31 as the date to largely complete discussions on both the investment and tax agreements and hold the next TIFA Council meeting on June 20 to finalize these agreements. She had a prepared nonpaper she read from. The text is provided in para 13 below.

Impact of Korea-U.S. FTA

¶16. (C) In light of the recent conclusion of the Korea-U.S. FTA, Tsai said her entire economic team is deeply concerned about the potential impact on Taiwan's trade. Hsieh claimed that 1,336 of Taiwan's industrial products will be disadvantaged under the Korean deal. (Note: At lunch the same day, John Deng explained the number of items is based on the assumption that all industrial products are included in the FTA deal and all will go to a 0% tariff. The items are a straight forward comparison of items exported by both South Korea and Taiwan. End note.) Tsai said Taiwan would like for USTR to be creative in seeking ways to ensure Taiwan will not be disadvantaged relative to South Korea and asked that Taiwan's industrial products receive equivalent treatment to that enjoyed by Korea (the first item listed in the first paragraph of the nonpaper). She emphasized she had specifically left out any mention of a U.S.-Taiwan FTA in her points because of the sensitivity of the topic.

Tsai Pushes for Early Talks, More Effort

¶7. (C) The Director pushed back repeatedly on Tsai's setting of May 31 for largely concluding talks on tax and investment agreements and June 20 for the next TIFA Council meeting. He said he would of course report the message back to Washington agencies, but urged Tsai to not be too rigid on sticking to these dates because of other commitments possibly already made by Bhatia and/or the various negotiating teams for the different agreements. Tsai responded by saying she believes there has been a loss of balance in the relationship and is concerned the TIFA talks would drift off to the fall if they are not held quickly and with a renewed sense of urgency on the U.S. side. She called for more U.S. time and attention to the bilateral trade relationship with Taiwan.

¶8. (C) The Director said the U.S. would be looking to Taiwan to be more accommodating in the Doha Round to help push the global trade agenda forward. Tsai said Taiwan can certainly consider doing so, but the focus now is to put more attention on the bilateral trade agenda. She said the U.S. side has not been happy with the political topics raised by Taiwan leaders and noted Taiwan has not been able to pass the military budget. However, she said there is a real opportunity to make progress on trade and investment issues.

Steve Chen Chairs Taiwan Side?

¶9. (C) Asked who would be leading the Taiwan side, Tsai pointed to MOEA Minister Steve Chen, who said he is consulting with USTR on whether it has any view on him being the Chair of the Taiwan side.

¶10. (C) Director Young said both sides are in full agreement on the desire to energize the trade negotiating process and see this as an area where we can make real progress. He

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emphasized that based on his recent conversations in Washington with Deputy USTR Bhatia it is clear that Mr. Bhatia shares the goals of maximizing the relationship and pushing it forward.

More Areas to Work on

¶11. (C) Director Young said the U.S. continues to look to Taiwan to be as cooperative as possible on enforcing export control regulations and hopes that the Vice Premier, in her coordinating role, will persuade the Ministry of Justice Investigative Bureau (MJIB) to be more forthcoming in working with the Board of Foreign Trade to investigate cases. Steve Chen responded by saying he thought coordination is improving, citing a recent case of MJIB working with BOFT of exported machinery to North Korea. The Director also emphasized the need to see progress on IPR issues, including the two pieces of pending legislation (on P2P and ISP) and improved efforts by the Ministry of Education. Chen responded by noting increased efforts on policing counterfeit drugs, saying the IPR Police force will work with the newly established police force on countering counterfeit drugs.

¶12. (C) Tsai concluded the meeting by emphasizing Taiwan's desire to hold the next TIFA meeting around June 20 and the tremendous economic need to have Korea-compatible tariffs for industrial products.

¶13. (C) Text of the paper read by Tsai.

April 23, 2007

-- We see Taiwan-US trade relations as a whole, with all elements contributing to this relationship. These elements

include market access (tariffs), double taxation agreement (DTA), bilateral investment agreement (BIA), government procurement agreement (GPA), agriculture imports, protection of IPR, pharmaceutical issues, and other trade-related issues.

-- Since Ambassador Bhatia's visit last year, we had hoped that discussions on the DTA or the BIA would be at least close to completion by now. However, up until now, we have not seen effective actions taken by the US-side on the signing of the DTA or the BIA. We feel disappointed with the progress to date.

On the DTA, we have yet to receive a draft. The request was placed back in December last year.

On the BIA, since discussions in August last year, only one exploratory meeting was held between the two sides, on April 13 this year.

On the GPA, discussion is needed on how a Taiwan-US bilateral GPA can take effect under the US law (a problem similar to the bilateral tax treaty).

-- We hope to expedite talks between the two sides on these agreements, targeting May 31st as the date of completion or near completion. In this regard, we hope to hold our TIFA meeting around June 20, to finalize these agreements.

-- We wish to emphasize should we fail to meet this timeline, we would strongly recommend a comprehensive review of our trade relationship as we feel there is serious loss of balance, particularly in light of the US-Korea FTA.

-- In the past months, Taiwan has expressed its sincerity by offering GPA, IPR protection, resolving pharmaceutical pricing issues, and opening-up our market to imports of US beef despite domestic and international criticisms. These are clear demonstrations of our major efforts. Given this, we hope our major industrial products will continue to have market access to the US, even after the recently completed US-Korea FTA; we hope our market access to be at least compatible with Korea's exports.

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-- We look forward to intensive discussions on the outstanding issues before June 20.

YOUNG